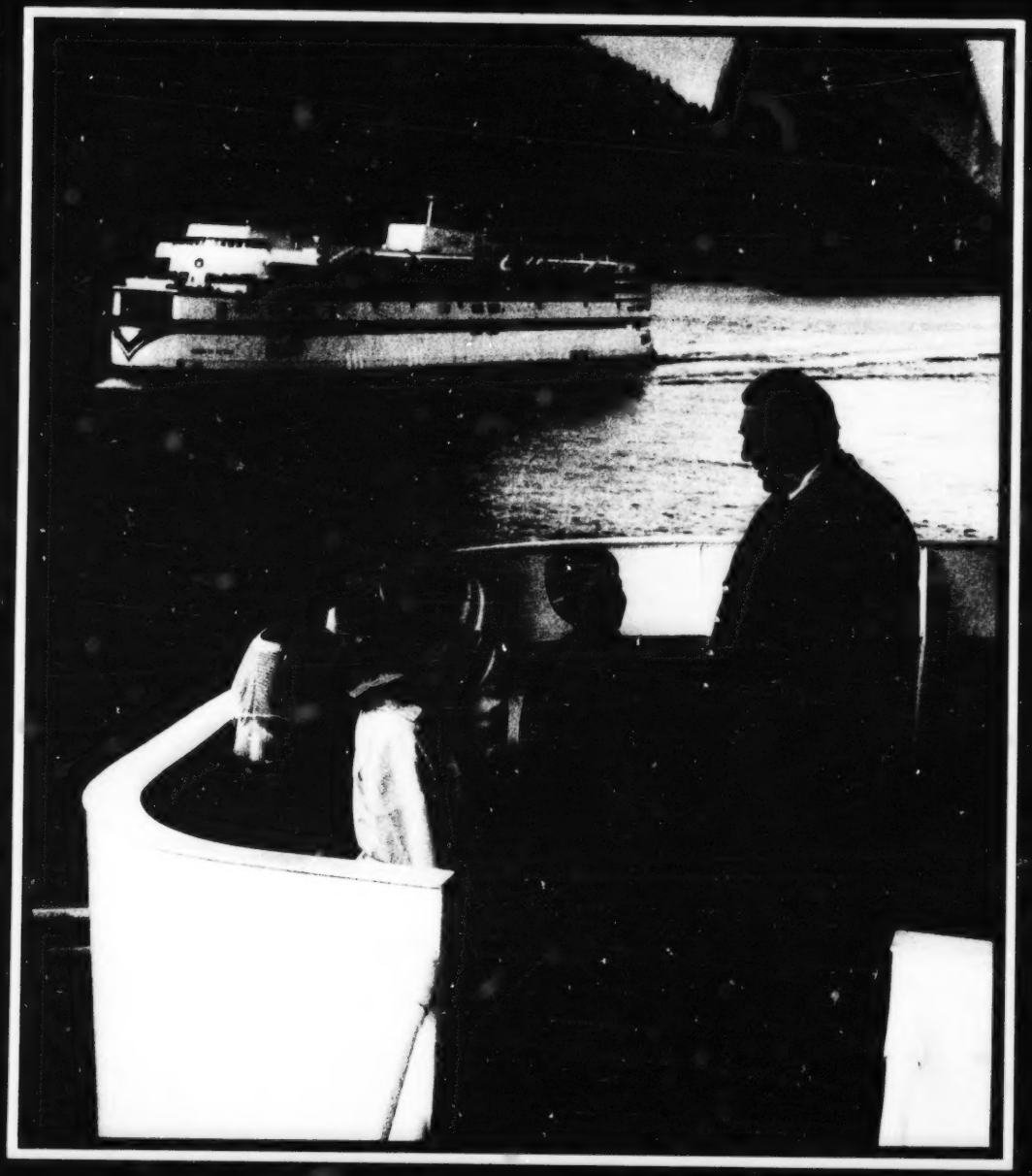
Twenty fifth



BRITISH COLUMBIA
FERRY CORPORATION

The Honourable
ROBERT G. ROGERS
Lieutenant Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 1986 in compliance with the provisions of the Ferry Corporation Act.

ALEX V. FRASER
Minister of Transportation and Highways
Minister Responsible, British Columbia
Ferry Corporation

June 27, 1986

HIGHLIGHTS OF THE YEAR	5
BOARD OF DIRECTORS	6
ORGANIZATION	7
CHAIRMAN'S REPORT	8
PRESIDENT'S REPORT	9
AUDITOR'S REPORT	13
FINANCIAL STATEMENTS	14
CORPORATE INFORMATION	24
STATISTICAL REVIEW	25
SERVICE AREAS	26
SHIPS OF THE FLEET	31
25 YEARS OF TRAFFIC	32

NET OPERATING REVENUE* + *7.9%
Revenue continued to show an increase over last year with part of the increase (1.7%) coming from the system acquired from Ministry of Transportation and Highways (MoTH).

OPERATING EXPENSES* + *16.7%
The trend of decreasing operating expenses was reversed this year, mainly due to two significant events, preparation for Expo 86 and the acquisition of the MoTH coastal ferries (8.7%).

INCOME/LOSS AFTER SUBSIDY & DEPRECIATION
The financial loss of $16.7 million this year reverses the trend of previous years and is primarily due to the effects of Expo 86 investment and the acquisition of the MoTH coastal ferries.

TOTAL PASSENGERS* + *13.3%
Most of the passenger traffic increase resulted from the MoTH acquisition. On those routes previously operated by the Corporation traffic grew by 2.2%.

TOTAL VEHICLES* + *13.2%
This increase is attributable to growth on existing routes (1.4%) and addition of the former MoTH routes (11.8%).

COMMERCIAL VEHICLES* + *2.9%
Commercial vehicle traffic on the Corporation's existing routes continued its steady increase of the past three years. Commercial counts from the MoTH routes were not available for inclusion at press time.

STUART M. HODGSON, Chairman of the Board, was appointed a Director and full-time Chairman in 1981, becoming Chief Executive Officer in 1982. He relinquished the C.E.O.'s position in 1984 upon assuming the Chairmanship at B.C. Transit. As Chairman of the Board, he is also Chairman of the Executive Committee.

ALEX V. FRASER is Minister of Transportation and Highways and Minister Responsible for the Corporation, having served in that capacity since 1978. He served as Chairman until 1981 when a full time Chairmanship was established.

ROBERT H. WRIGHT, Vice-Chairman, has been a Director since 1981. A resident of Oak Bay, he is President of Oak Bay Marina Ltd. He is a member of the Planning Committee and the Executive Committee.

WILLIAM A. DUNCAN was appointed a Director in 1977. Formerly responsible for urban transit operations with B.C. Hydro, he is now retired and lives in Burnaby. He is a member of the Board's Audit Committee, and is Chairman of its Finance Committee.

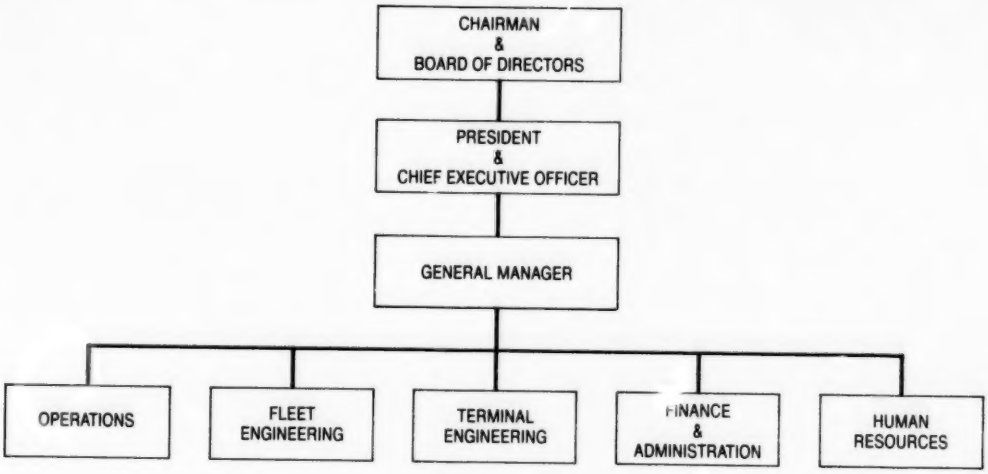
DR. WILLIAM B.M. HICK was appointed a Director in 1977. He is a physician in general practice, living in Prince Rupert. Dr. Hick is a member of the Executive Committee and the Finance Committee.

ALMER L. MICHAUD has been a Director since 1977. He has been involved throughout his working life in the airline industry in British Columbia. Mr. Michaud is Chairman of the Board's Audit Committee, and is a member of the Finance and the Executive Committees. He is now semi-retired, residing in Vancouver.

JOSEPH MORRIS was appointed a Director in 1984. A past President of the Canadian Labour Congress, he is now semi-retired and lives in Saanich. He is a member of the Board's Planning Committee.

JAMES E. PRICE was appointed a Director in 1984. He is a long time resident of Powell River, where he is the owner/operator of a resort hotel. He is a member of the Board's Audit Committee.

MICHAEL D.W. YOUNG is a practising lawyer resident in Victoria, and is a former Mayor of Victoria. He has been a Director since 1981. He is Chairman of the Board's Planning Committee.



OFFICERS

S.M. HODGSON	CHAIRMAN OF THE BOARD
R.H. WRIGHT	VICE-CHAIRMAN
A.L. COLLIER	PRESIDENT & CHIEF EXECUTIVE OFFICER
G. BALDWIN	GENERAL MANAGER
P.L. MORRIS	CORPORATE SECRETARY

THE BRITISH COLUMBIA FERRY CORPORATION NEW HEAD OFFICE ON FORT STREET

BC FERRIES FORMER HOME ON BROUGHTON STREET

TO: The Honourable Alex V. Fraser, Minister of Transportation and Highways

It is appropriate that during our twenty-fifth year of service to the Province, our operations would be significantly expanded to include all coastal areas of British Columbia. On October 6, 1985, the Ministry of Transportation and Highways (MoTH) coastal ferry fleet officially came under the mandate of the Corporation. This amalgamation increased our workforce by more than 400 employees. The Corporation is addressing the challenge of integrating these services while meeting the Board's mandate for cost-effectiveness and operational efficiency. B.C. Ferries' standardized docks, vessels, and traffic handling and other management systems will, over the short term, be expanded to the new routes thereby increasing the effectiveness and flexibility of all services.

Revenue rose by 7.9%, which is attributable to higher traffic volumes, plus the fare increases in January 1985. Fare levels were not increased during the fiscal year (April 1, 1985-March 31, 1986). While some additional revenue was generated by the transferred MoTH operation, the net result was an increase in the overall operating deficit of the Corporation. After a prior year of negative growth, traffic results for the pre-acquisition routes have returned to moderate growth levels with vehicles at 4,524,719 and passengers at 12,169,378. In comparison with 1984/85 this represents an increase of 1.4% and 2.2% respectively.

Corporate Management directed a great deal of planning effort toward Expo 86 to accommodate forecasted demand. Augmented service will be available by placing additional ships where appropriate, offering longer scheduled days, higher passenger loads per sailing, and procedures to facilitate foot passenger travel. The service improvements have required capital expenditures during 1985/86 including foot passenger areas at Swartz Bay, Tsawwassen and Horseshoe Bay, modifications to lifesaving equipment aboard major ships, and improved toll-booth cash registers.

The main-line northern services (Port Hardy-Prince Rupert and Prince Rupert-Skidegate) were significantly changed during the year. The north/south route was rescheduled to offer passengers a daylight scenic voyage through the "Inside Passage". Interior modifications to M.V. "Queen of the North" were designed to afford passengers a wide range of amenities and comfort. Commencing early in 1985, contracted freight service between Prince Rupert and Masset was discontinued in favour of increased service between Prince Rupert and Skidegate, including drop-trailer service.

As part of the Corporation's long-term strategy to maintain efficient and effective service, computer systems are undergoing in-depth review and analysis to determine computer policy through the medium term. This will place the Corporation in good position to handle long term growth during the 1990's.

An excellent opportunity arose late in the year for the Corporation to purchase new headquarters accommodation at 1112 Fort Street in Victoria. The move to this building will permit consolidation of the five sites now occupied in Victoria plus the Reservation Centre in Vancouver.

The fleet operated by B.C. Ferry Corporation is now, more than ever, an integral part of British Columbia's coastal communities. It provides the means for economic and cultural interaction amongst coastal islands and isolated areas at affordable cost. It is my sincere hope, as we complete our twenty-fifth year of service to the Province, that we will continue to enjoy the trust and confidence of the people we serve.

On behalf of the Board of Directors.

S.M. Hodgson
Chairman

The past year has seen significant growth arising from the transfer of the Ministry of Transportation and Highways' (MoTH) coastal ferry fleet to British Columbia Ferry Corporation's (BCFC) jurisdiction. As a result of this addition, the number of people and vehicles moved by B.C. Ferries will increase by more than 27%, placing the Corporation in the top group of ferry operators in the world in terms of vehicle and passenger traffic.

Meetings were held with MoTH employees and community representatives to explain how the transfer would occur and to establish an ongoing dialogue. Full integration of the coastal fleet will not take place until October 31, 1986 allowing sufficient time to resolve differences in operation and to combine the best aspects of both organizations. A bridging agreement was negotiated with the B.C. Ferry & Marine Workers' Union to cover terms and conditions of employment from October 1, 1985 to October 31, 1986. Reclassification was also negotiated for transferred employees. The addition of MoTH's coastal ferries resulted in a personnel increase of approximately 25%.

The Corporation found it necessary to reorganize its structure to accommodate its new operational requirements. The major change is the separation of Engineering into two divisions: Fleet Engineering, responsible for ships, and Terminal Engineering, responsible for construction and maintenance of lands, terminals and docks. A second addition is the creation of a Planning section reporting to the President.

Planning to meet expected traffic increases during Expo 86 began early in the year, resulting in a number of operational changes. Every BCFC vessel has been activated to provide increased capacity on many routes, thus enabling the Corporation to offer additional sailings during this period.

Costs have risen substantially as a result of capital and operating costs associated with fleet and terminal preparations for Expo 86, plus the added responsibility to the Corporation arising from the transferred routes. These costs are expected to be partially offset by significant growth during the coming year and improved efficiencies in the new operations.

1985 was the Corporation's 25th Anniversary. Celebrations included promotional cruises on the refitted "Queen of the North" during the Swiftsure Race and in conjunction with Prince Rupert's 75th Anniversary. The creation of an historical display for the Maritime Museum was well received. There were also distribution of anniversary pins to employees, a 10¢ coffee sale (1962 price) on BCFC's birthday, and, commemorating 25 years of service to the public, the publication of an illustrative history, "The Ships of British Columbia".

REPAINTING OF NEWLY TRANSFERRED TACHEK TO BCFC COLOURS

TRAFFIC TOWER VIEW OF LOADING AT SWARTZ BAY TERMINAL

OPERATIONS

The Operations Department continued to closely monitor traffic patterns to ensure a satisfactory distribution of vessel lift-off capable of coping with ever-changing traffic demands.

There was a total of 73,544 one-way sailings, an increase of 4.6% over the previous year. Traffic volume increases during the last quarter reflect a growth substantially above average for the year. Commercial traffic maintained its upward trend with a 2.9% increase over the previous year. Traffic volumes are expected to continue to grow as the Corporation moves into the Expo 86 period.

In addition to refining fleet scheduling, manning and vessel deployment related to normal operations, planning for Expo has required innovative responses to projected traffic variations. Additional capacity will be scheduled to allow for maximum flexibility.

Ongoing training in first-aid, food handling and marine emergency procedures continued to play an important role in maintaining a high quality of personnel. To ensure tourists receive a level of service encouraging them to return to British Columbia, many employees participated in the Superhost Program sponsored by the Ministry of Tourism.

Northern operational changes have been positive. The "Queen of Prince Rupert" successfully took over carriage of drop trailers between Prince Rupert and Skidegate, with only one sailing cancelled due to adverse weather conditions. The Day-Cruise concept proved popular with tourists, drawing many from Washington State and California. This enabled the "Queen of the North" to carry 95% of the traffic carried during the previous summer when two vessels were in operation. The new operation contributed significantly to increasing tourism revenues in various northern communities.

The operation of the MoTH coastal ferries has been integrated without incident and there has been minimal impact primarily due to the agreement to make no substantial changes in service or fares during the first year of operation under the Corporation.

Regrettably one of the Corporation's "C" Class vessels, M.V. "Queen of Cowichan", was in collision with the M.V. Kimberley, a privately owned pleasure craft. Official inquiries have been completed and the Corporation is moving to implement various recommendations arising out of these proceedings. Civil court proceedings are pending.

CATERING AND PASSENGER SERVICES

Net operating results were substantially improved over the previous fiscal year due to a combination of moderate food sales growth, lower food costs and reduced expenses. The fiscal year also saw an increase of longer term purchase contracts allowing for improved gross profit planning.

Food development programs through the test kitchen have continued to emphasize basic food quality while also satisfying growing public demand for lighter meals.

BCFC'S TEST KITCHEN ENSURES ONLY QUALITY PRODUCTS ARE SERVED TO FERRY PATRONS

The new gift shops on the Swartz Bay to Tsawwassen "V" Class vessels have been popular with both crew and travelling public. Gift shop sales on this route accounted for a majority of the fleetwide Newsstands' sales increase. Experience with giftware buying has been invaluable for 1986 summer requirements.

The Port Hardy/Prince Rupert Day-Cruise concept has been an outstanding success with major increases in food, newsstand and beverage sales. Room sales declined due to the day run aspect of the service. Passenger compliments on all aspects of this service have been extremely positive. With new cash registers on the M.V. "Queen of the North", more timely and detailed information is available, aiding analysis of operating efficiencies.

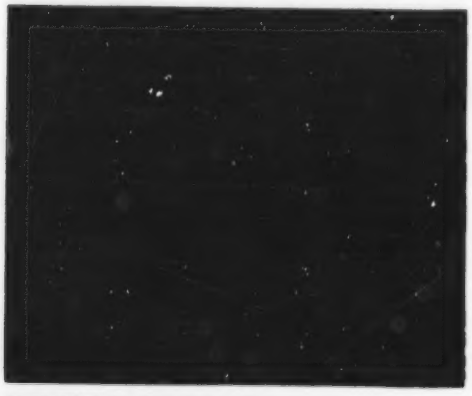
Cost accounting for stores located at Swartz Bay terminal is being computerized using an on-site microcomputer. Costing began on a daily basis in November and is providing timely data for analysis by senior managers.

FLEET ENGINEERING

All vessels have now been painted in the new fleet colours and a number of the newly acquired MoTH fleet have also been repainted. The remainder will be completed by the fall of 1986.

The M.V. "Queen of the North" conversion to a day boat was completed prior to the 1985 summer season. The M.V. "Howe Sound Queen" passenger accommodation area was expanded to better meet traffic volume on the Bowen Island/Horseshoe Bay run.

In preparation for Expo, a number of projects were completed. Vessels previously tied up at Ogden Point have been refitted and made ready for service. In addition, the existing buffet areas on the "V" Class vessels have been modified by increasing the seating capacity.



CHIEF AND 2ND ENGINEER IN ENGINE CONTROL ROOM OF THE QUEEN OF COWICHAN

A contract has been awarded for modifying accommodation facilities on M.V. "Queen of Alberni", bringing it more in line with existing "C" Class vessel standards. Completion is scheduled prior to the anticipated heavy traffic period of Expo 86.

TERMINAL ENGINEERING

The new department commenced operation October 6, 1985, with Mr. Ellis Meads as Assistant General Manager. The department is generally structured geographically between Vancouver Island and the Mainland with designated persons responsible for terminal construction, terminal maintenance and terminal survey respectively.

TERMINAL DESIGN ALLOWS FOR EFFICIENT LOADING AT TSAWWASSEN

Ongoing projects completed include construction of a passenger waiting facility and office building at Langdale (finalizing the re-construction of that terminal), the rebuilding of the Snug Cove dock and construction of a large vehicle compound at Village Bay. In line with Expo preparations, a bus passenger drop-off/pick-up area was constructed at Swartz Bay to facilitate increased bus service utilization without increasing ferry space allocation for buses. Double laning of an additional upper level ramp at Swartz Bay was also completed.

Priorities have been set for future construction and maintenance and work has commenced on a number of new projects.

FINANCE

The MoTH fleet transfer necessitated much work to ensure legal transfer of assets complied with accepted accounting standards. Payment for transferred assets was accomplished through a sale and leaseback arrangement for the M.V. "Queen of Surrey". Integration of MoTH revenue collection, traffic statistics and payroll has been accomplished without incident.

Work is almost complete on acquisition and installation of a new generation of cash registers with increased analytic and data base generation capabilities. These will be used on major routes.

As part of a program to modernize computing facilities and to meet the Corporation's growth and future requirements, the Systems Department has begun work on updating computer operations.

A new computerized time sheet system has been designed. Initial trials indicate that once hardware limitations are overcome, the new system will benefit both the Personnel and Payroll departments.

HUMAN RESOURCES

Expo 86 and the expansion of BCFC's fleet have provided many new challenges for the staff of the Human Resources Department. The newly titled Marketing and Public Relations Department (formerly Communications) reflects the Corporation's awareness of its increasing public profile and its important role in encouraging tourism in the province. This has been a year for developing promotional tools such as the audiovisual, "Highways of the Sea". It tells the impressive B.C. Ferries story to prospective passengers in B.C. and beyond, as well as revitalizing employee enthusiasm for their own "Proud Fleet".

Changes to the Gulf Island reservation system streamlined procedures and proved very successful. Reservations on Routes 9 and 10 continue to be heavily utilized on weekends and during the peak season.

COMPUTERIZED RESERVATIONS ASSIST FERRY PATRONS

PERSONNEL

The majority of employees laid off in the previous year have been recalled to their former classifications, leaving only 40 who are now employed as casuals. Personnel was responsible for the recruitment of approximately 800 casual employees — 300 to meet the regular summer demand plus 500 for the additional crewing demands associated with Expo 86.

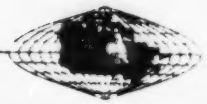
LABOUR RELATIONS

Good relations continued with the B.C. Ferry & Marine Workers' Union. A new President and Executive of the Union were elected during the year, with Mr. Lee Cochran as new President. The number of disputes requiring third party resolution were down dramatically, and the Corporation was able to provide service generally uninterrputed by picket action this year.

It is a tribute to all employees that their fine efforts throughout the year will enable the Corporation to offer first class service to those residents and tourists who will travel on B.C. Ferries in this, our Expo 86 year.

A.L. Collier
President and Chief Executive Officer

THORNE
RIDDELL
Chartered Accountants



AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Ferry Corporation as at March 31, 1986 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Victoria, Canada
May 29, 1986

FINANCIAL STATEMENTS

BALANCE SHEET

AS AT MARCH 31, 1986

(expressed in thousands)

ASSETS

	1985
CURRENT ASSETS	
Cash (Note 1)	$ 11,943
Accounts receivable	800
Inventories (Note 2)	8,558
Prepayments and deposits	849
	22,150
RESERVED FUNDS (Notes 1 and 3)	7,817
FIXED ASSETS (Note 4)	
Ships, berths, buildings, equipment and land	477,874
Less accumulated depreciation	204,709
	273,165

APPROVED BY THE BOARD

H A. Spencer

Director

Director

$303,132

FINANCIAL STATEMENTS

LIABILITIES

	1985
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	$ 17,939
Deferred revenue	1,675
Current portion of obligations under capital leases (Note 6)	—
	19,614
LONG-TERM DEBT (Note 5)	36,768
OBLIGATIONS UNDER CAPITAL LEASES (Note 6)	—
ACCRUED SICK LEAVE LIABILITY (Note 7)	5,218
	61,600

SHAREHOLDER'S EQUITY

SHARE CAPITAL	
Authorized 1,000,000 shares without par value with a maximum consideration of $100,000,000	
Issued 68,512 shares	6,85
CONTRIBUTED SURPLUS (Note 8)	250,40
DEFICIT	(15,720)
	241,532
RELATED PARTY TRANSACTION (Note 13)	
COMMITMENTS (Note 14)	
	$303,132

FINANCIAL STATEMENTS

STATEMENT OF INCOME

YEAR ENDED MARCH 31, 1986

(expressed in thousands)

	1985
OPERATING REVENUES	
Tolls	$100,628
Catering	22,396
Other income (Note 9)	2,506
	125,530
Less cost of food and goods sold	8,993
	116,537
OPERATING EXPENSES	
Salaries, wages and benefits	79,518
Fuel and lubricants	23,886
Materials, operating supplies and services	10,186
Contracted replacements, repairs and maintenance	5,263
Marketing, general and administrative	3,630
Charter fees	2,825
	125,308
OPERATING LOSS BEFORE SUBSIDY	8,771
PROVINCE OF BRITISH COLUMBIA SUBSIDY (Note 10)	43,000
INCOME FROM OPERATIONS	34,229
INTEREST EXPENSE (Note 11)	5,177
INCOME BEFORE DEPRECIATION (Note 14)	29,052
DEPRECIATION	31,064
INCOME (LOSS) FOR THE YEAR AFTER DEPRECIATION	($ 2,012)

FINANCIAL STATEMENTS

STATEMENT OF DEFICIT

YEAR ENDED MARCH 31, 1986
(expressed in thousands)

	1985
DEFICIT AT BEGINNING OF YEAR	$ 13,708
LOSS FOR THE YEAR AFTER DEPRECIATION	$ 2,012
DEFICIT AT END OF YEAR	$ 15,720

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1986
(expressed in thousands)

	1985
SOURCES (USES) OF CASH	
CASH FROM OPERATIONS (Note 12)	$ 28,355
FINANCIAL ACTIVITIES	
Capital leases	--
Cash reserved for funding accrued sick leave liability	(4,172)
Sinking fund payments and appreciation	(3,645)
	(7,817)
INVESTMENT ACTIVITIES	
Fixed asset additions	(12,456)
Ships under capital lease	--
	(12,456)
INCREASE (DECREASE) IN CASH	8,082
CASH AT BEGINNING OF YEAR	3,861
CASH AT END OF YEAR	$ 11,943

***Note:** In this statement cash includes only cash available for day to day operations and does not include Reserved Funds cash.*

FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES

YEAR ENDED MARCH 31, 1986

In accordance with Section 8(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

INVENTORIES –

Inventories are valued at the lower of cost and current replacement cost.

LONG-TERM DISABILITY –

Amounts paid to the Superannuation Branch of the Public Service Commission under the Long-Term Disability Plan are accounted for by the Corporation on the basis of accruing in the financial statements that portion estimated to be payable to employees until retirement for individual disability with the balance of the amounts paid being included in prepaid expenses.

FIXED ASSETS –

Acquired from the Province of British Columbia effective January 1, 1977:

(a) ***Ships***

Ships, which comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 16, 1976 and transferred at an assigned value of $1, have been revalued by the Corporation and are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977.

Three ships presently under charter by the Province until 1994 are subchartered to the Corporation for the same period at an annual cost of $1 each. Under the terms of the subcharter agreement with the Province, the Corporation may in 1994 request that the Province exercise its option to purchase these ships at its own expense in which case clear title to the ships will be transferred to the Corporation. Accordingly, these ships are reflected as capital assets of the Corporation in the accompanying financial statements and are stated at their estimated depreciated replacement value as at January 1, 1977.

(b) ***Berths, buildings and equipment***

Berths, buildings and equipment transferred at an assigned value of $1 are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977.

ADDITIONS AND DISPOSALS SUBSEQUENT TO JANUARY 1, 1977:

The costs of major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, minor renewals or replacements are charged against income. On retirement or disposal of fixed assets, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of income.

On October 1, 1983 the remaining buildings and equipment at Deas Dock facility, not acquired from the Province on January 1, 1977 were transferred at an assigned value of $1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at October 1, 1983 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

DEPRECIATION –

Fixed assets are depreciated on the straight line method based upon the following useful lives:

Ships	25 years
Berths	5-10 years
Buildings and equipment	4-25 years

LEASES –

A lease which transfers substantially all of the benefits and risks incidental to the ownership of property is accounted for as if it were an acquisition of an asset and the incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on a straight-line basis over their useful lives.

AMORTIZATION OF LONG-TERM DEBT DISCOUNT AND ISSUE COSTS –

Promissory note discount is amortized on a compound interest method over the term of the debt. Issue costs for promissory notes and capital leases are amortized on a straight-line basis over the term of the debt.

PROVISION FOR ANNUAL REFIT COSTS –

The Corporation provides for ship refit expense by charging against income the anticipated costs over the period between refits.

COMPARATIVE FIGURES –

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1986

1. CASH AND SHORT-TERM INVESTMENTS

Funds, other than those required for immediate settlement of liabilities, are invested in short-term commercial securities authorized pursuant to the terms and provisions of the Financial Administration Act of British Columbia. The investments are arranged through the Ministry of Finance of the Province.

2. INVENTORIES

	1985 (expressed in thousands)
Spare components, parts and supplies	$ 6,987
Fuel and lubricants	1,153
Goods for resale and catering supplies	418
	$ 8,558

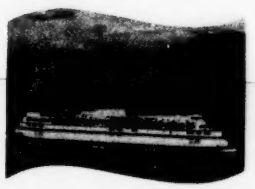
3. RESERVED FUNDS

The Corporation has segregated assets that are required for specific purposes or as required by long-term debt obligations.

	1985 (expressed in thousands)
Sinking funds for long-term debt (Note 5)	
Administered by the Province	$ 345
Administered by the Corporation	3,300
	3,645
Fund for accrued sick leave liability (Note 7)	4,172
	$ 7,817

4. FIXED ASSETS

	Cost or Appraised Value	Accumulated Depreciation	1985 (expressed in thousands) Net Book Value
Ships owned	$293,044	$117,158	$177,253
Ships under capital lease	102,711	30,637	50,441
Berths, buildings and equipment	142,588	86,483	43,543
Land	5,444	—	723
Construction in progress	2,861	—	1,205
	$546,648	$234,278	$273,165



FINANCIAL STATEMENTS

5. LONG-TERM DEBT

	1985 (expressed in thousands)
Long-term notes issued by the Corporation	
8.95% Promissory notes (effective rate of 15.75%), are repayable in five equal annual instalments of $5.7 million commencing March 5, 1988	$ 28,500
12.08% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of $322,492 commencing September 9, 1984	14,758
	43,258
Less Unamortized discount and issue costs	6,490
	$ 36,768

Principal and sinking fund payments due in each of the next five years:

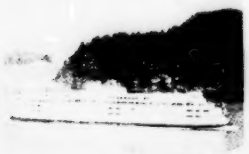
1987	1988	1989	1990	1991
$322,492	$6,022,492	$6,022,492	$6,022,492	$6,022,492

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the Promissory notes.

6. OBLIGATIONS UNDER CAPITAL LEASES

The Corporation has obligations under capital leases for the M.V. "Queen of Surrey," M.V. "Quinsam" and automotive equipment.

	(expressed in thousands)
Total minimum lease payments are:	
M.V. "Queen of Surrey" implicit interest rate 8.685%	
M.V. "Quinsam" implicit interest rate 13.6%	
Automotive equipment implicit interest rate 10%	
Payable in fiscal year ending in	
1987	
1988	
1989	
1990	
1991	
1992 and subsequent	
Less executory costs and interest	
Present value of net minimum capital lease payments	
Less current portion	



7. ACCRUED SICK LEAVE LIABILITY

On September 1, 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. Under the collective agreement with the employees, in the event of illness, the accumulated sick time may be withdrawn prior to retirement, and on retirement, any balance remaining is payable in cash at 50% of accredited time.

An actuarial evaluation by Reed Stenhouse Associates Limited as at March 31, 1985 determined that the recorded liability was $1,569,000 in excess of that required. This excess is being reflected in operations over three years ending March 31, 1987.

Funds reserved for liquidation of this liability are invested in short-term commercial security (Notes 1 and 3).

8. CONTRIBUTED SURPLUS

	1985 (expressed in thousands)
Excess of estimated depreciated replacement value over assigned value of $1 of assets acquired from the Province of British Columbia	
-Ships, berths, buildings and equipment effective January 1, 1977	$249,674
-Buildings and equipment effective October 1, 1983	727
	$250,401

9. OTHER INCOME

	1985 (expressed in thousands)
Parking and ancilliary traffic revenue	$ 947
Interest earned on funds in bank and short-term investments	1,559
	$ 2,506

10. PROVINCIAL SUBSIDY

The Corporation receives a subsidy from the Province of British Columbia which is determined annually.

Included in fixed assets as "ships under capital lease" are three ships leased from the Province at an annual cost of $1 each. The annual cost of these charters to the Province is $4,819,800. In addition the Corporation utilizes Crown land for terminals and highway access without rental or property taxes. The value of these benefits has not been determined. The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable.

11. INTEREST EXPENSE

	1985 (expressed in thousands)
Interest expense, amortization of promissory note discount and amortization of debt issue cost on:	
-long-term debt and capital leases	$ 5,171
-short-term borrowings	6
	$ 5,177

12. CASH FROM OPERATIONS

	1985
	(expressed in thousands)
Loss for the year after depreciation	$ (201)
Items not involving cash	
-Depreciation	3
-Amortization of promissory note discount and debt issue costs	
-Increase (decrease) in accrued sick leave liability	(626)
Cash generated from continuing operations	2 286
Cash generated from (used for) operating working capital	
-Accounts receivable	(295)
-Inventories	695
-Prepayments and deposits	(266)
-Accounts payable and accrued liabilities	(1,195)
-Deferred revenue	130
Cash generated from operations	$ 28,355

13. RELATED PARTY TRANSACTION

On October 6, 1985 the Corporation acquired the operation of all saltwater routes previously operated or subsidized by the Ministry of Transportation and Highways for the Province of British Columbia. The acquisition included the following assets for the price indicated:

	(expressed in thousands)
Terminals	
Vessels	
Spare machinery and equipment	
Other	
Vessel under capital lease	

The acquisition was partially funded by the sale and lease back of the M.V. "Queen of Surrey" for net proceeds of $42.9 million. The original cost and accumulated depreciation of this vessel has been reclassified from ships owned to ships under capital lease.

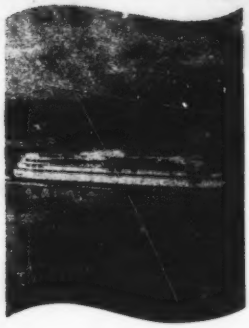
The M.V. "Quinsam" was acquired by assuming the existing capital lease obligation at present value of $5.5 million.

14. COMMITMENTS

Of the income before depreciation, the Corporation has scheduled capital maintenance and extra-ordinary operating expenditures for modification and upgrading of:

	(expressed in thousands)
Ships	
Life Saving Equipment	
Terminals	
Cash Handling Facilities	
Other Equipment and Facilities	

As at March 31, 1986 contracts awarded on a number of these projects totalled $5.7 million, of which $4.9 million remains outstanding.



CORPORATE

* HEAD OFFICE	818 Broughton Street Victoria, B.C. V8W 1E4
INFORMATION/ RESERVATION CENTRE	1045 Howe Street Vancouver, B.C. V6Z 2A9
AUDITORS	Thorne Riddell 707 Fort Street Victoria, B.C. V8W 3G3
CORPORATE COUNSEL	Ladner Downs 2100 Pacific Centre South 700 W. Georgia Street Vancouver, B.C. V7Y 1A8
BANKERS	Bank of Nova Scotia Victoria, B.C. Canadian Imperial Bank of Commerce Victoria, B.C.

* As of May 20, 1986 the Corporation's Offices have been relocated.

HEAD OFFICE	1112 Fort Street Victoria, B.C. V8V 4V2

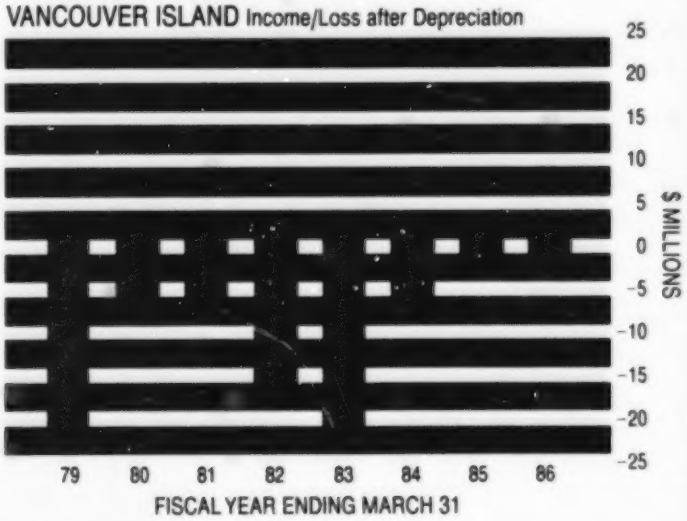
YEAR ENDED MARCH 31

	1986	1985	1984	1983	1982	1981
			(expressed in thousands)			
FINANCIAL:						
Operating revenue – gross	**134,900**	125,530	120,514	110,689	112,199	99,552
Operating expense	**146,245**	125,308	132,553	139,013	133,856	104,956
Operating loss before subsidy	**20,535**	8,771	21,213	37,213	31,221	14,261
Subsidy	**40,000**	43,000	43,000	43,000	58,891	53,106
Cash flow from operations	**18,032**	28,355	17,198	(3,005)	35,831	44,811
Depreciation and amortization	**29,013**	31,064	30,586	34,724	26,087	22,148
Interest on debt	**7,132**	5,177	6,198	5,073	893	779
Working capital (deficiency)	**(9,353)**	2,536	(6,799)	(37,506)	(11,495)	15,612
Additions to property	**68,219**	12,456	7,142	26,804	74,376	44,919
Total assets	**343,655**	303,132	305,974	335,370	357,817	334,696
Long-term debt	**37,764**	36,768	35,586	20,428	31,716	13,764
Obligations under capital leases	**48,619**	—	—	—	—	—
OPERATING:						
Traffic						
BCFC						
Passengers	**12,169**	11,913	12,398	12,275	12,764	12,513
Vehicles	**4,524**	4,460	4,483	4,463	4,713	4,626
MoTH						
Passengers	**1,328**	—	—	—	—	—
Vehicles	**525**	—	—	—	—	—
Miles						
(MoTH excluded)						
Passengers	**286,568**	269,703	283,745	278,975	339,395	334,078
Vehicles	**101,426**	96,531	97,569	97,020	118,633	116,318
Utilization %						
(MoTH excluded)						
Passengers	**30**	28	25	27	26	28
Vehicles	**60**	59	56	50	48	60

VANCOUVER ISLAND

The two routes maintaining a transportation corridor between the Province's largest urban centres carry in excess of 49% of all traffic using the entire BCFC system. This transportation link is also the main artery for commercial vehicles servicing Vancouver Island, and greatly influences the economic activity of Island communities. In 1985/86 these routes carried 8.0 million passengers and 2.8 million vehicles. Traffic growth and continual cost efficiency improvements over the past four years have resulted in a position whereby revenue continues to approach a break-even position. The loss was $1.2 million for the year.

QUEEN OF ALBERNI IS TYPICAL OF LARGE VESSELS MAINTAINING A TRANSPORTATION CORRIDOR BETWEEN VANCOUVER ISLAND AND THE MAINLAND

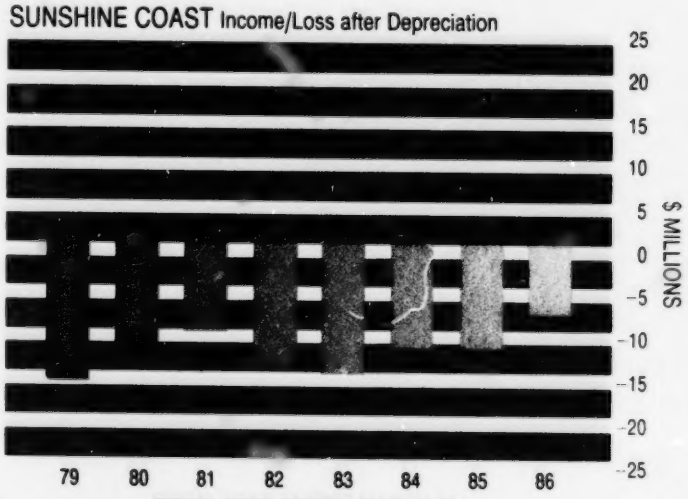


SUNSHINE COAST

Sunshine Coast ferries provide access to the lower Mainland for urban areas north of Vancouver. Ferries also provide an important transportation link for people living in rural island communities or tourists wishing to enjoy park facilities located on islands within the region. Tourists use a number of these ferries when they travel the *Circle Tour*. These routes carried 2.5 million passengers and 1.1 million vehicles in 1985/86, a marginal increase over the previous year. The loss decreased to $7.0 million, a 27% decline from the previous fiscal year, after reflecting changes in cost allocations.

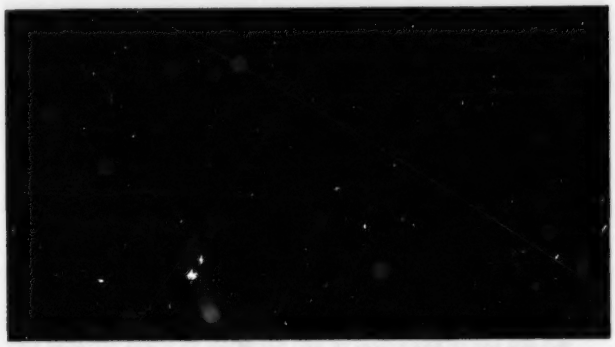
HOWE SOUND QUEEN BRINGING SCHOOL CHILDREN AND COMMUTERS TO THEIR RURAL HOME ON BOWEN ISLAND

SUNSHINE COAST Income/Loss after Depreciation



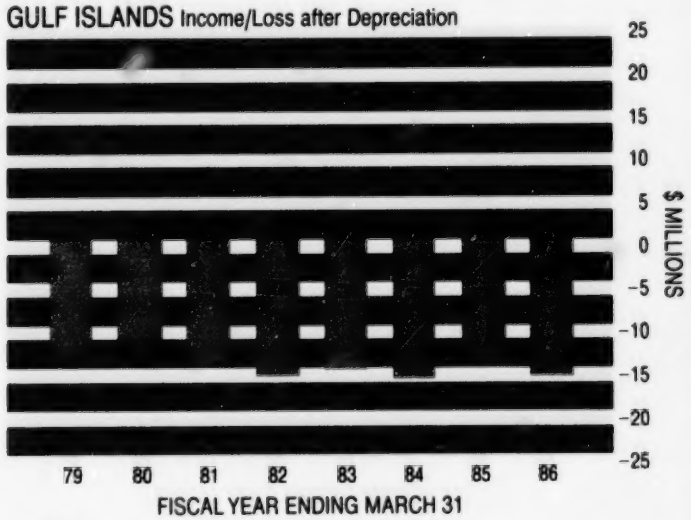
GULF ISLANDS

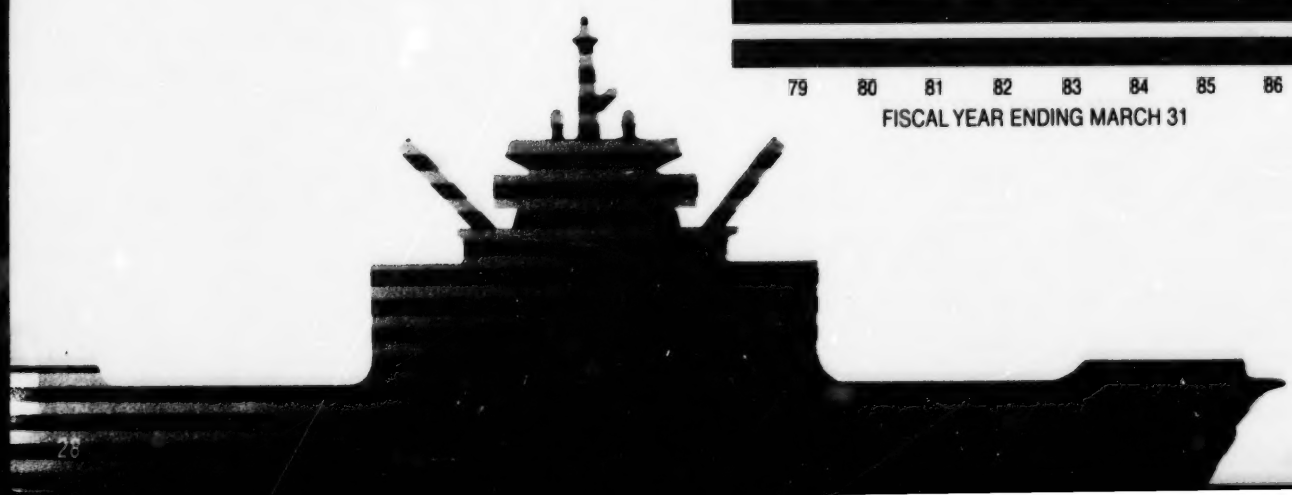
Ferries serve these small semi-isolated communities by ensuring access to goods and services from Vancouver Island or the Mainland. They also allow tourists and city dwellers to retreat to these areas to enjoy the beautiful parks and recreational facilities of the Gulf Islands. An increasing number of island residents rely on the ferry service for access to employment opportunities on Lower Vancouver Island. In 1985/86 these routes carried 1.5 million passengers and 627,000 vehicles. The loss was $14.3 million, a 2% increase over the prior year, after reflecting changes in cost allocations.



SALT SPRING QUEEN IS AN IMPORTANT LINK TO VANCOUVER ISLAND FOR THE SMALL COMMUNITIES OF SALT SPRING ISLAND

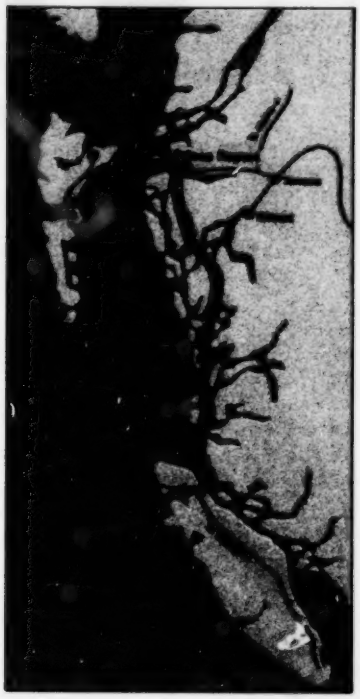
GULF ISLANDS Income/Loss after Depreciation

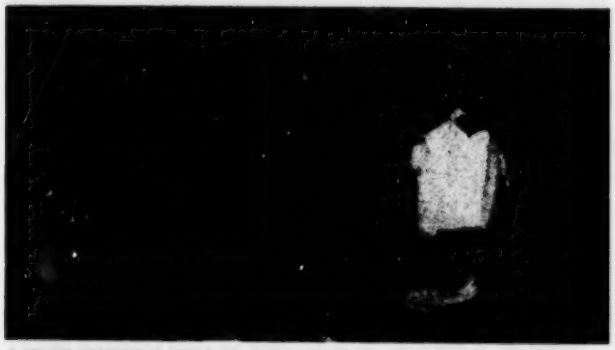




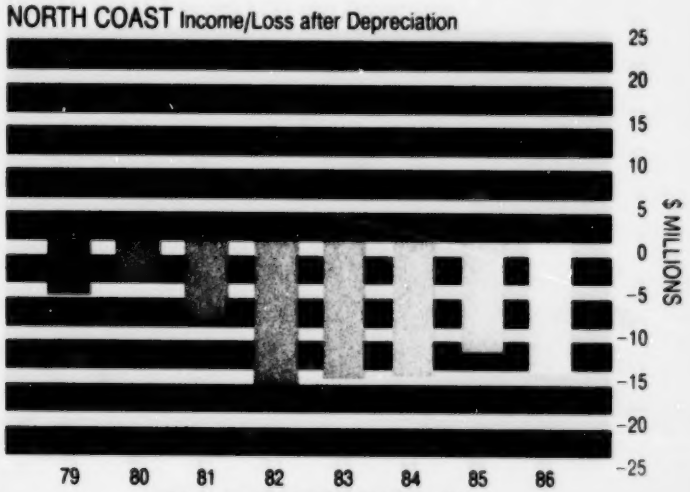
NORTH COAST

Ferry service is often the only alternative to air transportation in isolated northern communities. These communities utilize the service for supplies, access to educational facilities or health care, and the ability to commute to work in Prince Rupert. The newly created ***Day Cruise*** attracts many tourists to enjoy the beauty of the Inside Passage, giving substantial assistance to the northern tourist industry. In 1985/86 the loss was $14.2 million, an increase of 8.8% over the previous year, after reflecting changes in cost allocations.





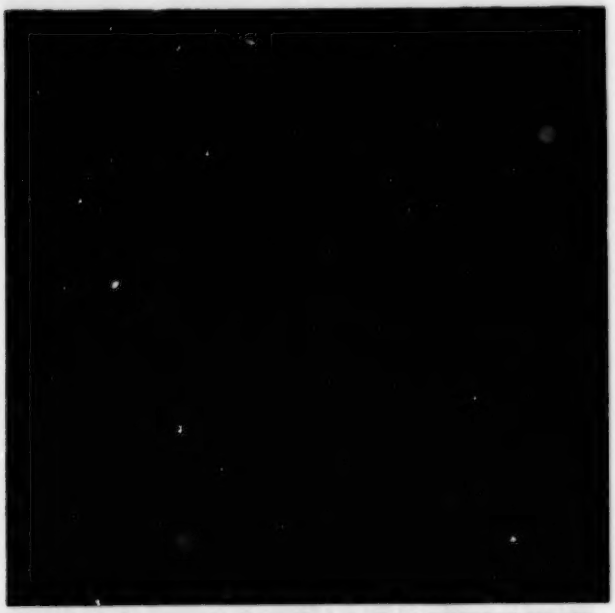
A YOUNG PASSENGER VISITS THE WHEELHOUSE ON THE QUEEN OF THE NORTH



ACQUIRED ROUTES

(formerly operated by the Ministry of Transportation and Highways)

The majority of these ferry routes service small rural communities located on the east coast of Vancouver Island. There are two routes linking the urban areas of Nanaimo and Campbell River to communities located on nearby islands while Powell River, located on the mainland, is connected to Vancouver Island by ferry service. Tourists enjoy a number of ferry rides in this group when travelling the ***Circle Tour*** or enjoying the splendor of Provincial parks. For the six month period ending March 31, 1986, these routes carried 1.33 million passengers and 525,000 vehicles. During this period the loss was $11.6 million.



QUINSAM ALLOWS RESIDENTS ON GABRIOLA ISLAND TO COMMUTE TO NANAIMO FOR WORK OR SCHOOL

	YEAR BUILT	LENGTH (ft)	CAPACITY (autos)	CAPACITY (pass.)	TONS (gross)
C CLASS SHIPS					
QUEEN OF COQUITLAM	1976	457	362	1466	6551
QUEEN OF COWICHAN	1976	457	362	1466	6551
QUEEN OF OAK BAY	1976	457	362	1466	6969
QUEEN OF SURREY	1976	457	362	1466	6969
QUEEN OF ALBERNI	1976	457	310	1415	5863
V CLASS SHIPS					
QUEEN OF ESQUIMALT	1963	426	376	1360	5430
QUEEN OF SAANICH	1963	426	376	1360	5430
QUEEN OF VANCOUVER	1962	426	258	1360	5430
QUEEN OF VICTORIA	1962	426	258	1360	5430
STRETCH CLASS SHIPS					
QUEEN OF BURNABY	1965	426	192	987	4903
QUEEN OF NANAIMO	1964	426	192	987	4939
QUEEN OF NEW WESTMINSTER	1964	426	192	987	4904
MAJOR SHIPS					
QUEEN OF SIDNEY	1960	336	138	989	3128
QUEEN OF TSAWWASSEN	1960	336	138	989	3127
PRINCESS OF VANCOUVER	1955	388	138	700	8836
NORTHERN SHIPS					
QUEEN OF THE NORTH	1969	410	135	750	8807
QUEEN OF PRINCE RUPERT	1966	332	80	458	5864
MINOR SHIPS					
POWELL RIVER QUEEN	1965	279	70	440	1486
HOWE SOUND QUEEN	1964	241	70	400	795
MAYNE QUEEN	1965	279	70	400	1476
BOWEN QUEEN	1965	279	70	394	1476
QUINSAM	1981	285	70	394	1458
QUINITSA	1977	245	50	294	1107
NORTH ISLAND PRINCESS	1958	185	50	280	841
QUEEN of the ISLANDS	1963	236	40	483	1717
SALTSPRING QUEEN	1949	145	36	187	276
VESUVIUS QUEEN	1950	150	32	77	277
QUADRA QUEEN II	1969	163	30	200	771
TACHEK	1969	163	30	150	751
KAHLOKE	1973	180	30	150	466
KLITSA	1972	156	26	150	348
KWUNA	1975	180	25	150	347
TENAKA	1964	152	18	100	651
MILL BAY	1956	120	16	168	175
NICOLA	1960	110	16	150	255
ALBERT J. SAVOIE	1961	110	16	150	256
NIMPKISH	1973	110	16	145	266
GARIBALDI II	1964	110	7	400	337
DOGWOOD PRINCESS II	1979	42	0	38	21

Year End	Passengers	Vehicles
March 31, 1961	692,000	221,000
March 31, 1962	2,040,000	697,000
March 31, 1963	2,665,000	895,000
March 31, 1964	3,180,000	1,034,000
March 31, 1965	3,300,000	1,185,000
March 31, 1966	4,000,000	1,333,000
March 31, 1967	4,477,000	1,516,000
March 31, 1968	4,361,000	1,530,000
March 31, 1969	4,774,000	1,733,000
March 31, 1970	5,671,000	2,102,000
March 31, 1971	5,963,511	2,228,412
March 31, 1972	6,771,837	2,552,505
March 31, 1973	7,629,385	2,824,964
March 31, 1974	8,538,297	3,169,582
March 31, 1975	9,612,501	3,558,234
March 31, 1976	9,912,738	3,760,099
March 31, 1977	8,383,502	3,044,167
March 31, 1978	9,018,976	3,258,017
March 31, 1979	10,399,203	3,758,628
March 31, 1980	11,423,405	4,161,302
March 31, 1981	12,512,898	4,625,917
March 31, 1982	12,763,664	4,712,951
March 31, 1983	12,275,466	4,462,731
March 31, 1984	12,397,905	4,482,707
March 31, 1985	11,912,943	4,460,069
March 31, 1986	13,497,102*	5,050,165*
Total	***198,173,333***	***72,356,450***

* These figures include MoTH traffic statistics for six month period ending March 31, 1986.